

**REPORT OF THE AUDIT OF THE  
BREATHITT COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2004**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**BREATHITT COUNTY FISCAL COURT**

**June 30, 2004**

The Auditor of Public Accounts has completed the audit of the Breathitt County Fiscal Court for fiscal year ended June 30, 2004.

We have issued unqualified opinions, based on our audit, on the governmental activities, each major fund, and aggregate remaining fund information financial statements of Breathitt County, Kentucky.

**Financial Condition:**

The fiscal court had net assets of \$7,853,513 as of June 30, 2004. The fiscal court had unrestricted net assets of \$1,180,630 in its governmental funds as of June 30, 2004. The fiscal court had total debt principal as of June 30, 2004 of \$9,407,951 with \$534,861 due within the next year.

**Report Comments:**

Internal Control and Compliance

- The County Treasurer Should Prepare Bank Reconciliations For The Payroll Account
- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

Internal Control and Compliance – Federal Awards

- The County Should Monitor Davis-Bacon Act Requirements As Applicable To Federal Awards
- The County Should Require All Vendors Related To Federal Awards To Submit Suspension And Debarment Certifications

**Deposits:**

The fiscal court deposits were insured and collateralized by bank securities on June 30, 2004, however on August 31, 2003 the county's bank accounts were uninsured and undercollateralized by \$603,876.



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**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable Lewis Warrix, Breathitt County Judge/Executive  
Members of the Breathitt County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Breathitt County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Breathitt County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Breathitt County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Breathitt County, Kentucky, as of June 30, 2004, and the respective changes in financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has implemented Governmental Accounting Standards Board Statements 33, 34, and 37 as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable Lewis Warrix, Breathitt County Judge/Executive  
Members of the Breathitt County Fiscal Court

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Breathitt County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. The combining non-major fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation of the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated January 11, 2005, on our consideration of Breathitt County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the schedule of findings and questioned costs, included herein, which discusses the following report comments:

- The County Treasurer Should Prepare Bank Reconciliations For The Payroll Account
- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits
- The County Should Monitor Davis-Bacon Act Requirements As Applicable To Federal Awards
- The County Should Require All Vendors Related To Federal Awards To Submit Suspension And Debarment Certifications

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
January 11, 2005

## BREATHITT COUNTY OFFICIALS

For The Year Ended June 30, 2004

### **Fiscal Court Members:**

Lewis Warrix	County Judge/Executive
James W. Combs	Commissioner
Steve Banks	Commissioner
Arch Turner	Commissioner

### **Other Elected Officials:**

Brendon D. Miller	County Attorney
James E. Turner	Jailer
Tony Watts	County Clerk
Thomas E. Howard	Circuit Court Clerk
John L. Turner	Sheriff
Ervine Allen	Property Valuation Administrator
Bobby G. Thorpe, Jr.	Coroner

### **Appointed Personnel:**

William K. Back	County Treasurer
Wanda K. Barnett	Occupational Tax Collector
Brenda Fugate	Finance Officer





**LEWIS H. WARRIX**  
**Breathitt County Judge Executive**

1137 Main Street  
Jackson, Kentucky 41339

Phone (606) 666-3800  
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**Management's Discussion and Analysis**  
**June 30, 2004**

The financial management of Breathitt County, Kentucky offers readers of Breathitt County's financial statements this narrative overview and analysis of the financial activities of Breathitt County for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with other information that we have furnished in our letter of transmission and the notes to the financial statements.

**Financial Highlights.**

- Breathitt County had net assets of \$7,853,513 as of June 30, 2004. The fiscal court had unrestricted net assets of \$1,180,630 in the governmental activities as of June 30, 2004. Total debt principal for governmental funds as of June 30, 2004 was \$9,407,951 with \$534,861 due within one year.
- The governmental activities total net assets increased by \$378,607 from the prior year.
- At the close of the current fiscal year, Breathitt County governmental funds reported assets of \$6,381,614. Of this amount, \$6,381,614 is available for spending at the government's discretion (unreserved fund balance).
- Breathitt County's total indebtedness at the close of fiscal year June 30, 2004 was \$9,407,951, of which \$8,873,090 is non-current debt (due after 1 year) and \$534,861 is current debt (to be paid within 1 year). Debt additions were \$1,123,503, and debt reductions were \$1,881,066 for a net decrease of \$757,563 for the year.

**Overview of the Financial Statements.**

This management discussion and analysis is intended to serve as an introduction to Breathitt County's basic financial statements. Breathitt County's basic financial statements comprised of three components: 1) government wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

GASB 34 requires management to include certain comparison schedules when they are available. The schedules include prior and current comparisons of general revenues by major source, and program expenses by function. This is the first year of implementation and these schedules will be presented next year.

**Government-wide Financial Statements.** The *government-wide financial statements* are designed to provide the readers with a broad overview of Breathitt County's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of Breathitt County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Breathitt County is improving or deteriorating.

### Government-wide Financial Statements. (Continued)

The *Statement of Activities* presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported on a modified cash basis of accounting. Basis of accounting is a reference to when financial events are recorded, such as timing for recognizing revenues, expenses, and related assets and liabilities.

Under the county's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from a cash transaction, except for the recording of depreciation expenses on capital assets in the government-wide financial statements for all activities.

As a result of the use of the modified cash basis of accounting, certain assets and their related revenues (such as amounts billed for services provided, but not collected) and accounts payable (expenses for goods and services received but not paid) or compensated absences are not recorded.

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or significant portion of their costs through user fees and charges (*business-type activities*). Breathitt County's governmental activities include general government, protection to persons and property, general health and sanitation, roads, recreation, social services, airport, debt service, capital projects, and administration. Breathitt County has no business type activities.

**Fund Financial Statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Breathitt County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Breathitt County are *governmental funds*.

**Governmental Funds.** Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statement. However, unlike the government-wide financial statements, governmental fund financial statements focus on current inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluation a government's near-term financing requirements.

Because of focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's current financing decisions. Both the governmental fund balance and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Breathitt County maintains (12) twelve individual governmental funds. Information is presented separately in the governmental fund budget sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances.

**Breathitt County**  
**Management's Discussion and Analysis**  
**June 30, 2004**  
**(Continued)**

**Governmental Funds. (Continued)**

Major Funds:

- General Fund
- Road Fund
- Breathitt County Kentucky Justice Center Corporation Bond Fund
- Breathitt County General Obligation Refunding Bond Series 2003 Fund

Non Major Funds:

- Jail Fund
- Local Government Economic Assistance (LGEA) Fund
- CDBG Fund
- DES Fund
- Solid Waste Fund
- E-911 Fund
- Local Government Economic Development (LGED) Fund
- Breathitt County Public Properties Corporation Bond Fund

Breathitt County adopts an annual appropriated budget. A budgetary comparison statement has been provided for the General Fund and the Road Fund to demonstrate compliance with their budgets.

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Net Assets.** As noted earlier, net assets may serve over time as a useful indicator of a government's financial position.

Table 1

Breathitt County's Net Assets

	<b>Governmental Activities</b>	
	<u>2003</u>	<u>2004</u>
<b>Assets</b>		
Current and other assets	\$ 8,926,468	\$ 6,381,614
Capital assets	<u>8,713,952</u>	<u>10,879,850</u>
Total assets	17,640,420	17,261,464
<b>Liabilities</b>		
Current and other liabilities		534,861
Long-term liabilities	<u>10,165,514</u>	<u>8,873,090</u>
Total liabilities	10,165,514	9,407,951
<b>Net Assets</b>		
Invested in capital assets, net of related debt	(1,451,562)	1,471,899
Restricted	8,043,249	5,200,984
Unrestricted	<u>883,219</u>	<u>1,180,630</u>
Total Net Assets	<u>\$ 7,474,906</u>	<u>\$ 7,853,513</u>

**Breathitt County  
Management's Discussion and Analysis  
June 30, 2004  
(Continued)**

**Change in Net Assets.**

*Governmental Activities.* Breathitt County's net assets increased by \$378,607 in fiscal year 2004. Key elements of this are as follows:

- Current assets and cash decreased \$2,544,854, due to expenditures from the Breathitt County Kentucky Justice Center Corporation Bond Fund.
- Investment in capital assets and infrastructure, net of related debt increased \$2,923,461 primarily due to the increase of a construction in progress.
- Current and long-term liabilities decreased by \$1,292,424 primarily due to a retirement of a bond anticipation note.

**Financial Analysis of the County's Funds.**

As noted earlier, Breathitt County uses fund accounting to ensure and demonstrate compliance with finance-related requirements.

*Governmental Funds Overview.* The focus of Breathitt County governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balances may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of June 2004 fiscal year, the combined ending fund balances of County governmental funds were \$6,381,614. Approximately 100% of this consists of unreserved fund balance, which is available as working capital and for current spending in accordance with the purposes of the specific funds.

The County has (4) four major governmental funds, and (8) non-major funds.

**Major Funds:**

- General Fund
- Road Fund
- Breathitt County Kentucky Justice Center Corporation Bond Fund
- Breathitt County General Obligation Refunding Bond Series 2003 Fund

**Non-Major Funds**

- Jail Fund
- Local Government Economic Assistance (LGEA) Fund
- CDBG Fund
- DES Fund
- Solid Waste Fund
- E-911 Fund
- Local Government Economic Development (LGED) Fund
- Breathitt County Public Properties Corporation Bond Fund

**Breathitt County  
Management's Discussion and Analysis  
June 30, 2004  
(Continued)**

**Financial Analysis of the County's Funds. (Continued)**

1. The General Fund is the chief operating fund of Breathitt County. At the end June 30, 2004 fiscal year, unreserved fund balance of the General Fund was \$555,658. The fiscal year 2004 expenditures for the General Fund were \$1,347,841.
2. The Road Fund is the fund related to the County road and bridge construction and maintenance. The Road Fund had \$313,380 fund balance at June 30, 2004. The fiscal year 2004 expenditures for the Road and Bridge Fund were \$2,388,876.
3. The Breathitt County Kentucky Justice Center Corporation Bond Fund had a fund balance of \$4,745,673 as of June 30, 2004, for the construction of a new Justice Center. These funds were restricted for the construction and debt reduction of the Justice Center.
4. The Breathitt County General Obligation Refunding Bond Series 2003 Fund had a fund balance of \$455,311 as of June 30, 2004. These funds are restricted for debt reduction.
5. The Jail Fund is used to account for the operation of the County's detention program. The Jail Fund had a balance at end June 30, 2004 of \$ 9,503. The Jail Fund received \$88,484 for intergovernmental fees, primarily for housing prisoners. The General Fund contributed \$ 228,000.00 and the L.G.E.A. Fund contributed \$ 190,000.00 to the jail operations.
6. The Local Government Economic Assistance Fund had a balance of \$110,063 as of June 30, 2004, for funding of the Coroner's Office and Animal Control.
7. The CDBG Fund established for the Life Skills Center had a balance of \$0 (zero). This fund was established to account for the pass through funds in the amount of \$393,283 from various agencies for construction of the Life Skills Center.
8. The DES Fund had a balance of \$15,431. Breathitt County was designated the Regional Center and received Weapons of Mass Destruction funding in the amount of \$422,447 and an additional \$80,970 for Homeland Security.
9. The Solid Waste Fund had a balance of \$91,437.
10. The E-911 Fund accounts for the operation of the City/County emergency operations communications. The fund had a balance of \$83,144 at the end of the June 30, 2004 fiscal year. Tax revenue from telephone and cell phones for the fiscal year was \$76,668.
11. The Local Government Economic Development Fund had a balance of \$2,014.
12. The Breathitt County Public Properties Corporation Bond Fund had a fund balance of \$0 (zero). These funds are restricted for debt reduction.

**General Fund Budgetary Highlights.**

Breathitt County's budget was amended during the fiscal year increasing the budgeted amount by \$320,299. Budget amendments were made to various expenditures due to grants awarded in the fiscal year.

**Breathitt County**  
**Management's Discussion and Analysis**  
**June 30, 2004**  
**(Continued)**

**Capital Assets and Debt Administration.**

*Capital Assets.* Breathitt County's investment in capital assets for its government activities as of June 30, 2004, amount to \$10,879,850 (net of accumulated depreciation). This investment in capital assets includes land, buildings improvements to land other than buildings, construction in progress, machinery and equipment, vehicles, and current infrastructure additions. Breathitt County is reporting infrastructure assets placed in service on or after July 1, 2003, as allowed by GASB 34 provisions.

Major capital asset events during the 2004 fiscal year included continued construction of the Justice Center and the purchase of road equipment.

Additional information of the County's capital assets can be found in Note 4 of this report.

**Table 2**  
**Breathitt County's Capital Assets, Net of Accumulated Depreciation**

	<b>Governmental</b>	
	<b>Activities</b>	
	2003	2004
Infrastructure	\$	\$ 321,659
Land	1,727,786	1,727,786
Construction In Progress	640,766	2,300,810
Bldgs. & Improvements	5,920,724	5,870,769
Vehicles & Equipment	424,676	658,826
Total Net Capital Assets	\$ 8,713,952	\$ 10,879,850

*Long-term Debt.* At the end of the 2004 fiscal year, Breathitt County had total bonded debt outstanding of \$9,407,951. The totals are as follows: General Obligation Bonds \$650,000 and Revenue Bonds \$8,435,000. Breathitt County had other Financing Obligations of \$322,951 to include capital leases and a loan guaranty.

**Other Matters.** The following factors are expected to have a significant effect on the County's financial position or results of operations and were taken into account in developing the 2005 fiscal year budget:

- The 2005 fiscal year adopted budget continues most services at current levels.
- Program cuts at the State level, particularly relating to the cost of housing prisoners, may have a negative impact on funding for county programs.
- Economic factors indicate a flat rate of growth for the county.

**Requests For Information.**

This financial report is designed to provide a general overview of Breathitt County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this or requests for additional financial information should be addressed to the Breathitt County Treasurer, 1137 Main Street, Jackson, Kentucky 41339.

**BREATHITT COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2004**



**BREATHITT COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2004**

	<b>Primary Government</b> <hr/> <b>Governmental Activities</b> <hr/>
<b>ASSETS</b>	
Current Assets	
Cash and Cash Equivalents	\$ 5,932,114
Investments	449,500
Total Current Assets	<hr/> 6,381,614 <hr/>
Noncurrent Assets	
Capital Assets - Net of Accumulated Depreciation	
Construction In Progress	2,300,810
Land and Land Improvements	1,727,786
Buildings	5,870,769
Vehicles and Equipment	658,826
Infrastructure Assets - Net of Depreciation	<hr/> 321,659 <hr/>
Total Noncurrent Assets	<hr/> 10,879,850 <hr/>
Total Assets	<hr/> 17,261,464 <hr/>
<b>LIABILITIES</b>	
Current Liabilities	
Due Within One Year	534,861
Noncurrent Liabilities	
Due In More Than One Year	<hr/> 8,873,090 <hr/>
Total Liabilities	<hr/> 9,407,951 <hr/>
<b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	1,471,899
Restricted For:	
Capital Projects	4,745,673
Debt Service	455,311
Grant Projects	
Unrestricted	<hr/> 1,180,630 <hr/>
Total Net Assets	<hr/> \$ 7,853,513 <hr/>

The accompanying notes are an integral part of the financial statements.

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**BREATHITT COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2004**

**BREATHITT COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2004**

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 1,508,509	\$ 99,576	\$ 2,045,426	\$
Protection to Persons and Property	1,047,210	8,941	79,938	1,113,766
General Health and Sanitation	331,956	60,496		
Social Services	29,728			
Recreation and Culture	2,328			
Roads	1,736,795		338,614	545,850
Airports	10,323			
Road Facilities	12,391			
Interest on Long-Term Debt	409,594			
Capital Projects	394,274			
Total Governmental Activities	5,483,108	169,013	2,463,978	1,659,616
Total Primary Government	\$ 5,483,108	\$ 169,013	\$ 2,463,978	\$ 1,659,616

**General Revenues:**

Taxes:

Real Property Taxes

Personal Property Taxes

Motor Vehicle Taxes

Other Taxes

Excess Fees

Miscellaneous Revenues

Accrued Interest Received

Total General Revenues

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

**BREATHITT COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2004**  
**(Continued)**

<b>Net (Expenses) Revenues and Changes in Net Assets</b>	
<b>Primary Government</b>	
<b>Governmental Activities</b>	<b>Totals</b>
\$ 636,493	\$ 636,493
155,435	155,435
(271,460)	(271,460)
(29,728)	(29,728)
(2,328)	(2,328)
(852,331)	(852,331)
(10,323)	(10,323)
(12,391)	(12,391)
(409,594)	(409,594)
(394,274)	(394,274)
(1,190,501)	(1,190,501)
\$ (1,190,501)	\$ (1,190,501)
299,532	299,532
11,395	11,395
69,779	69,779
1,002,745	1,002,745
36,973	36,973
89,862	89,862
58,822	58,822
1,569,108	1,569,108
378,607	378,607
7,474,906	7,474,906
\$ 7,853,513	\$ 7,853,513

The accompanying notes are an integral part of the financial statements.

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**BREATHITT COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2004**

**BREATHITT COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2004**

	<b>General Fund</b>	<b>Road Fund</b>	<b>Breathitt County Kentucky Justice Center Corporation Bond Fund</b>	<b>Breathitt County General Obligation Refunding Bond Series 2003 Fund</b>
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 555,658	\$ 313,380	\$ 4,745,673	\$ 5,811
Investments				449,500
Total Assets	<u>\$ 555,658</u>	<u>\$ 313,380</u>	<u>\$ 4,745,673</u>	<u>\$ 455,311</u>
<b>FUND BALANCES</b>				
Unreserved:				
General Fund	\$ 555,658	\$	\$	\$
Special Revenue Fund		313,380		
Capital Projects Fund			4,745,673	
Debt Service Fund				455,311
Total Fund Balances	<u>\$ 555,658</u>	<u>\$ 313,380</u>	<u>\$ 4,745,673</u>	<u>\$ 455,311</u>

The accompanying notes are an integral part of the financial statements.

**BREATHITT COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**June 30, 2004**  
**(Continued)**

<b>Non- Major Funds</b>	<b>Total Governmental Funds</b>
\$ 311,592	\$ 5,932,114
	449,500
<u>\$ 311,592</u>	<u>\$ 6,381,614</u>

\$ 311,592	\$ 555,658
	624,972
	4,745,673
	455,311
<u>\$ 311,592</u>	<u>\$ 6,381,614</u>

**Reconciliation of the Balance Sheet - Governmental Funds to the Statement Of Net Assets:**

Total Fund Balances	\$ 6,381,614
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	12,271,966
Depreciation	(1,392,116)
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Financing Obligations	(322,951)
Bonded Debt	<u>(9,085,000)</u>
Net Assets Of Governmental Activities	<u>\$ 7,853,513</u>

The accompanying notes are an integral part of the financial statements.

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**BREATHITT COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2004**

**BREATHITT COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2004**

	<b>General Fund</b>	<b>Road Fund</b>	<b>Breathitt County Kentucky Justice Center Corporation Bond Fund</b>
<b>REVENUES</b>			
Taxes	\$ 1,305,953	\$	\$
Excess Fees	36,973		
Intergovernmental	178,619	2,432,009	
Charges for Services			
Miscellaneous	153,196	25,085	
Interest	1,718	2,659	45,015
Total Revenues	<u>1,676,459</u>	<u>2,459,753</u>	<u>45,015</u>
<b>EXPENDITURES</b>			
General Government	1,255,927	118,715	4,102
Protection to Persons and Property	62,186		
General Health and Sanitation		24,422	
Social Services	29,728		
Transportation Facilities and Services		2,328	
Roads		2,224,361	
Airports			
Recreation and Culture			
Debt Service		19,050	1,381,355
Capital Projects			1,660,044
Total Expenditures	<u>1,347,841</u>	<u>2,388,876</u>	<u>3,045,501</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>328,618</u>	<u>70,877</u>	<u>(3,000,486)</u>
<b>Other Financing Sources (Uses)</b>			
Bond Proceeds			
Governmental Leasing/Kaco		258,503	
Transfers From Other Funds	42,718	55,450	
Transfers To Other Funds	(228,000)	(228,306)	
Total Other Financing Sources (Uses)	<u>(185,282)</u>	<u>85,647</u>	
Net Change in Fund Balances	143,336	156,524	(3,000,486)
Fund Balances - Beginning	412,322	156,856	7,746,159
Fund Balances - Ending	<u>\$ 555,658</u>	<u>\$ 313,380</u>	<u>\$ 4,745,673</u>

The accompanying notes are an integral part of the financial statements.

**BREATHITT COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2004**  
**(Continued)**

<b>Breathitt County</b>		
<b>General Obligation</b>		
<b>Refunding Bond</b>	<b>Non-</b>	<b>Total</b>
<b>Series 2003</b>	<b>Major</b>	<b>Governmental</b>
<b>Fund</b>	<b>Funds</b>	<b>Funds</b>
\$	\$ 76,668	\$ 1,382,621
		36,973
	1,522,342	4,132,970
	60,891	60,891
	11,157	189,438
6,832	2,598	58,822
6,832	1,673,656	5,861,715
	103,175	1,481,919
	1,041,788	1,103,974
	283,683	308,105
		29,728
		2,328
	11,965	2,236,326
	10,323	10,323
	12,391	12,391
864,290	25,965	2,290,660
	394,274	2,054,318
864,290	1,883,564	9,530,072
(857,458)	(209,908)	(3,668,357)
865,000		865,000
		258,503
545,937	436,000	1,080,105
(98,168)	(525,631)	(1,080,105)
1,312,769	(89,631)	1,123,503
455,311	(299,539)	(2,544,854)
	611,131	8,926,468
\$ 455,311	\$ 311,592	\$ 6,381,614

The accompanying notes are an integral part of the financial statements.

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**BREATHITT COUNTY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2004**



**BREATHITT COUNTY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2004**

**Reconciliation to the Statement of Activities:**

Net Change in Fund Balances - Total Governmental Funds	\$	(2,544,854)
--	----	-------------

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay		2,343,030
Depreciation Expense		(152,132)
Sale of Surplus Property		(25,000)

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds. These transactions, however, have no effect on net assets.

Financing Obligation		(258,503)
Bond Issuance		(865,000)

Lease and bond principal payments are expensed in the Governmental Funds as a use of current financial resources.

Financing Obligations		26,066
Bond Payments		1,855,000

Change in Net Assets of Governmental Activities	\$	378,607
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**INDEX FOR NOTES  
TO THE FINANCIAL STATEMENTS**

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**BREATHITT COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2004**

**Note 1. Summary of Significant Accounting Policies**

**A. Basis of Presentation**

The county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on the Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

**B. Reporting Entity**

The financial statements of Breathitt County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

Blended Component Units

The following legally separate organizations provide their services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. These organizations' balances and transactions are reported as though they are part of the county's primary government using the blending method.

Breathitt County Public Properties Corporation

The Fiscal Court has the authority to appoint a voting majority of the Breathitt County Public Properties Corporation's (PPC) Board of Directors. The Fiscal Court also has the ability to approve or modify the PPC's budget, approve or modify rate or fee changes affecting revenues, veto, overrule, or modify decisions of the Board of Directors, or otherwise impose its will on the PPC. In addition, the Fiscal Court is financially accountable for the PPC, legally entitled to the PPC's resources, as well as legally obligated for the PPC's debt. Financial information for the Breathitt County Public Properties Corporation is blended within Breathitt County's financial statements.

**BREATHITT COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**B. Reporting Entity (Continued)**

Blended Component Units (Continued)

Breathitt County Kentucky Justice Center Corporation

The Fiscal Court has the ability to approve or modify the JCC's budget, approve or modify rate or fee changes affecting revenues, veto, overrule, or modify decisions of the Board of Directors, or otherwise impose its will on the JCC. In addition, the Fiscal Court is financially accountable for the JCC, legally entitled to the JCC's resources, as well as legally obligated for the JCC's debt. Financial information for the Breathitt County Kentucky Justice Center Corporation is blended within Breathitt County's financial statements.

**C. Breathitt County Elected Officials Not Part Of Breathitt County, Kentucky**

Kentucky law provides for election of the officials below from the geographic area constituting Breathitt County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Breathitt County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

**D. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities are normally supported by taxes and intergovernmental revenues.

The government-wide statements are reported using the economic resources measurement focus and the modified cash basis of accounting. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

**BREATHITT COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements (Continued)**

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental). The fiscal court may also designate any fund as major.

Governmental Funds:

All governmental fund statements are reported using the current financial resources measurement focus and the modified cash basis of accounting. The modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

The primary government reports the following major governmental funds:

**General Fund** - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

**Road Fund** - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

**Breathitt County Kentucky Justice Center Corporation Bond Fund** - The Breathitt County Kentucky Justice Center Corporation accounts for the activities of the Breathitt County Kentucky Justice Center Corporation, a blended component unit of the county. The Breathitt County Kentucky Justice Center Corporation issued debt to build facilities and additions of the justice center. The Breathitt County Kentucky Justice Center Corporation entered into a contract, lease, and option with the County and Administrative Office of The Courts (AOC), Commonwealth of Kentucky. The Governor's Office for Local Development does not require the fiscal court to report or budget these funds.

**Breathitt County General Obligation Series 2003 Bond Fund** - The purpose of this fund is to account for debt service requirements of general obligation bonds of the fiscal court. The Governor's Office for Local Development does not require the fiscal court to report or budget these funds.

The primary government also has the following non-major funds: the Jail Fund, Local Government Economic Assistance Fund, CDBG Fund, DES Fund, Solid Waste Fund, E-911 Fund, Local Government Economic Development Fund, and the Breathitt County Public Properties Corporation Bond Fund.

**BREATHITT COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements (Continued)**

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, CDBG Fund, DES Fund, Solid Waste Fund, E-911 Fund, and the Local Government Economic Development Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Capital Projects Fund:

The Breathitt County Kentucky Justice Center Corporation Bond Fund is presented as a capital projects fund. Capital projects funds are to account for the financial resources to be used for the acquisition or construction of major capital facilities.

Debt Service Fund:

The Breathitt County General Obligation Series 2003 Bond Fund and the Breathitt County Public Properties Corporation Bond Fund are presented as debt service funds. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

**E. Deposits and Investments**

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

**F. Capital Assets**

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the governmental or activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed. Only those infrastructure assets placed in service on or after July 1, 2003, are reported, as permitted by provisions of GASB 34.

**BREATHITT COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**F. Capital Assets (Continued)**

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery, Equipment, and Vehicles	\$ 5,000	3-25
Infrastructure	\$ 20,000	10-50

**G. Long-term Obligations**

In the government-wide financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

**H. Fund Equity**

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

**BREATHITT COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**I. Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the Breathitt County Public Properties Corporation Bond Fund, the Breathitt County Kentucky Justice Center Corporation Bond Fund, and the Breathitt County General Obligation Refunding Bond Series 2003 Fund. The Governor's Office for Local Development does not require these funds to be budgeted.

**J. Related Organizations, Joint Venture, and Jointly Governed Organizations**

Related Organization

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following is considered a related organization of Breathitt County Fiscal Court: Breathitt County Industrial Foundation.

Jointly Governed Organizations

A jointly governed organization is an entity that results from a multigovernmental arrangement that is governed by representatives from each participating government. The entity provides services to the citizens of each participating government, but there is no ongoing financial interest or responsibility by the participating governments. The jointly governed organization can act independently of each of the participating governments. The Jackson/Breathitt County Airport Board meets the criteria noted above and is an organization jointly governed by Breathitt County and the City of Jackson.

**BREATHITT COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**  
**(Continued)**

**Note 2. Deposits and Investments**

**A. Deposits**

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. However, on August 31, 2003, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$602,876 of public funds uninsured and unsecured. In addition, the county did not have a written agreement with the depository institution securing the county's interest in the collateral.

	<u>Bank Balance</u>
Insured by FDIC	\$ 200,000
Collateralized with securities held by the bank	1,281,616
Uncollateralized and uninsured	<u>602,876</u>
Total	<u><u>\$ 2,084,492</u></u>

**B. Investments**

The county's investments are categorized below to give an indication of the level of risk assumed by the county at year-end. Category 1 includes investments that are insured or registered or the securities are held by the county or by the county's agent in the county's name. Category 2 includes uninsured and unregistered investments where the securities are held by the financial institution in the county's name. Category 3 includes uninsured and unregistered investments where the securities were held by the financial institution, but not in the county's name.

	<u>Category</u>			<u>Carrying</u>	<u>Market</u>
<u>Investments</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>Amount</u>	<u>Value</u>
<b>Primary Government:</b>					
Governmental					
Securities	<u>\$ 449,500</u>	<u>\$</u>	<u>\$</u>	<u>\$ 449,500</u>	<u>\$ 449,500</u>

**BREATHITT COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**  
**(Continued)**

**Note 3. Capital Assets**

Capital asset activity for the year ended June 30, 2004 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<b>Primary Government:</b>				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 1,727,786	\$	\$	\$ 1,727,786
Construction In Progress	640,766	1,660,044		2,300,810
Total Capital Assets Not Being Depreciated	2,368,552	1,660,044		4,028,596
Capital Assets, Being Depreciated:				
Buildings	6,825,500			6,825,500
Vehicles and Equipment	759,884	345,441	(25,000)	1,080,325
Infrastructure		337,545		337,545
Total Capital Assets Being Depreciated	7,585,384	682,986	(25,000)	8,243,370
Less Accumulated Depreciation For:				
Buildings	(904,776)	(49,955)		(954,731)
Vehicles and Equipment	(335,208)	(86,291)		(421,499)
Infrastructure		(15,886)		(15,886)
Total Accumulated Depreciation	(1,239,984)	(152,132)		(1,392,116)
Total Capital Assets, Being Depreciated, Net	6,345,400	530,854	(25,000)	6,851,254
Governmental Activities Capital Assets, Net	\$ 8,713,952	\$ 2,190,898	\$ (25,000)	\$ 10,879,850

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 26,590
Protection to Persons and Property	50,244
General Health and Sanitation	23,851
Roads, Including Depreciation of General Infrastructure Assets	<u>51,447</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 152,132</u>

Breathitt County has valued all capital assets using estimated historical costs. The county is only reporting infrastructure placed in service on or after July 1, 2003, and did not report any infrastructure in place prior to July 1, 2003.

**BREATHITT COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**  
**(Continued)**

**Note 4. Long-term Debt**

**A. Public Project Refunding and Improvement Revenue Bonds, Series 1994**

In March 1994, the Breathitt County Public Properties Corporation, a component unit of the Breathitt County Fiscal Court, issued \$1,745,000 in Public Project Revenue Bonds to retire a 1989 bond issue and to finance road projects within the County. The Public Project Revenue Bonds were originally scheduled to mature in April 2006. As a cost savings measure, the Fiscal Court refinanced the bonds with a General Obligation Refunding Bonds, Series 2003, on July 1, 2003. The Public Project Revenue Bonds payment schedule was revised to reflect a maturity date of October 1, 2003. The bonds principal and interest payments have been paid in full from the proceeds of the General Obligation Refunding Bonds, Series 2003.

**B. Public Project Revenue Bonds (Jail Project), Series 1996**

In February 1996, the Breathitt County Public Properties Corporation, a component unit of the Breathitt County Fiscal Court, issued \$445,000 in Public Project Revenue Bonds for the cost of renovating the existing county detention center. These bonds were originally scheduled to mature in February 2016. The Fiscal Court refinanced these bonds as a cost savings measure on July 1, 2003. As part of the refunding, the Jail Bonds payment schedule was revised to reflect a maturity date of February 1, 2006. The bond principal and interest payments will be paid from the proceeds of the General Obligation Refunding Bonds, Series 2003. As of June 30, 2004, the principal balance outstanding on the 1996 Jail Bonds was \$405,000.

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2005	\$ 15,000	\$ 24,988
2006	390,000	24,163
Totals	<u>\$ 405,000</u>	<u>\$ 49,151</u>

**C. First Mortgage Revenue Bonds (Justice Center Project), Series 2003**

On April 1, 2003, the Breathitt County, Kentucky Justice Center Corporation issued bonds in order to construct a new Justice Center. On the same day, the Breathitt County, Kentucky Justice Center Corporation, Administrative Office of the Courts (AOC), and the county entered into a lease agreement for the purpose of obtaining office rental space for the AOC at the Justice Center.

The Breathitt County, Kentucky Justice Center Corporation is acting as an agent for the AOC in order to plan, design, construct, manage and maintain the Justice Center. The Breathitt County, Kentucky Justice Center Corporation expects annual rentals for use of the Justice Center to be in the full amount of the annual principal and interest requirements of the bonds. Under the terms of the lease, the AOC has agreed to pay directly to the paying agent bank, the use allowance payment as provided in the lease. The lease agreement is renewable every two years. The Breathitt County, Kentucky Justice Center Corporation is in reliance upon the use allowance payment in order to meet the debt service for the bonds.

**BREATHITT COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**  
**(Continued)**

**Note 4. Long-term Debt (Continued)**

**C. First Mortgage Revenue Bonds (Justice Center Project), Series 2003 (Continued)**

The use allowance payment commences with occupancy of the Judicial Building by the Administrative Office of the Courts. The Administrative Office of the Courts with the execution of the lease has expressed its intention to continue to pay the full use allowance payment in each successive biennial budget for a period of twenty years, but the lease does not legally obligate the Administrative Office of Courts to do so. As of June 30, 2004, the principal balance outstanding was \$8,030,000. Debt service requirements for fiscal years ending June 30, 2005, and thereafter are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2005	\$ 290,000	\$ 287,780
2006	295,000	283,430
2007	305,000	274,655
2008	315,000	265,695
2009	325,000	256,355
2010-2014	1,785,000	1,127,288
2015-2019	2,130,000	803,566
2020-2024	2,585,000	379,700
Totals	<u>\$ 8,030,000</u>	<u>\$ 3,678,469</u>

**D. General Obligation Refunding Bonds, Series 2003**

On July 1, 2003, the County issued \$865,000 in General Obligation Refunding Bonds, Series 2003. The proceeds from these refunding bonds were used to refinance the Breathitt County Public Properties Corporation Series 1994 Road bonds, the Breathitt County Public Properties Corporation Series 1996 Jail bonds, and a 1998 capital lease for a grader. These bonds are scheduled to mature in February 2016; interest payments are due every six months starting in February 2004 and principal payments are due annually beginning in February 2004. At June 30, 2004, the principal balance outstanding on these bonds was \$650,000. Debt service requirements for fiscal years ending June 30, 2005, and thereafter are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2005	\$ 215,000	\$ 16,601
2006	145,000	12,839
2007	25,000	9,939
2008	25,000	9,139
2009	25,000	8,339
2010-2014	160,000	27,350
2015-2016	55,000	2,719
Totals	<u>\$ 650,000</u>	<u>\$ 86,926</u>

**BREATHITT COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**  
**(Continued)**

**Note 4. Long-term Debt (Continued)**

**E. First Mortgage Revenue Bond Anticipation Renewal Notes, Series 2003**

On January 30, 2003, the Breathitt County, Kentucky Justice Center Corporation, a component entity of the Breathitt County Fiscal Court, issued \$1,080,000 of bond anticipation renewal notes to finance the initial construction costs for a new Justice Center. The notes matured on August 1, 2003. The principal due of \$1,080,000 and interest due of \$13,575 were paid in full.

**F. Grader**

On December 9, 1998, the County entered into a lease agreement with Citizens Bank for the purchase of a grader. Terms of the lease agreement stipulate a five-year repayment schedule with monthly principal and interest payments of \$2,306. The final payment on the grader was made in FY 2004.

**G. 2002 Chevy Suburban**

On April 23, 2002, the County entered into a lease agreement with Citizens Bank for the purchase of a 2002 Chevy Suburban. Terms of the lease agreement stipulated a three-year repayment schedule with monthly principal and interest payments of \$506. As of June 30, 2004, the principal balance outstanding was \$4010. Debt service requirements for fiscal years ending June 30, 2005, and thereafter are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2005	\$ 4,010	\$ 114
Totals	<u>\$ 4,010</u>	<u>\$ 114</u>

**H. Grader and Dump Trucks**

On December 4, 2003, the County entered into a lease agreement with Kentucky Association of Counties for the purchase of a grader and three dump trucks. Terms of the lease agreement stipulate an 8-year repayment schedule with monthly interest payments and annual principal payments. As of June 30, 2004, the principal balance outstanding was \$225,000. Debt service requirements for fiscal years ending June 30, 2005, and thereafter are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2005	\$	\$ 6,801
2006	29,353	6,462
2007	30,237	5,600
2008	31,148	4,729
2009	32,086	3,791
2010-2014	<u>102,176</u>	<u>5,504</u>
Totals	<u>\$ 225,000</u>	<u>\$ 32,887</u>

**BREATHITT COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**  
**(Continued)**

**Note 4. Long-term Debt (Continued)**

**I. Tractor/Mower**

On July 15, 2003, the County entered into a lease agreement with First National Bank for the purchase of a tractor/mower. Terms of the lease agreement stipulate a four-year repayment schedule with monthly principal and interest payments of \$764. As of June 30, 2004, the principal balance outstanding was \$26,295. Debt service requirements for fiscal years ending June 30, 2005, and thereafter are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2005	\$ 8,161	\$ 1,008
2006	8,528	642
2007	8,919	250
2008	688	3
Totals	<u>\$ 26,296</u>	<u>\$ 1,903</u>

**J. Loan Guaranty – Airport Board**

On November 1, 1999, the County and the City of Jackson entered into an unsecured guaranty agreement with First National Bank. The agreement stipulates that the County and the City of Jackson will guarantee payments on a loan that was entered into by the Jackson/Breathitt Airport Board in the amount of \$156,317. Terms of the agreement stipulate a principal and interest payment of \$1,000 per month with a termination date of November 16, 2019. The County and the City of Jackson currently pay an equal payment of \$500 each directly to First National Bank. As of June 30, 2004, the County's portion of the principal balance outstanding was \$67,645. Debt service requirements for the County's portion for fiscal years ending June 30, 2005, and thereafter are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2005	\$ 2,690	\$ 3,310
2006	2,828	3,172
2007	2,972	3,028
2008	3,116	2,884
2009	3,284	2,716
2010-2014	19,110	10,889
2015-2019	24,526	5,472
2020	9,119	2,652
Totals	<u>\$ 67,645</u>	<u>\$ 34,123</u>

**BREATHITT COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**  
**(Continued)**

**Note 4. Long-term Debt (Continued)**

**K. Changes In Long-term Liabilities**

Long-term liability activity for the year ended June 30, 2004, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Primary Government:</b>					
<u>Governmental Activities:</u>					
General Obligation Bonds	\$	\$ 865,000	\$ 215,000	\$ 650,000	\$ 215,000
Revenue Bonds	10,075,000		1,640,000	8,435,000	305,000
Financing Obligations	90,514	258,503	26,066	322,951	14,861
Governmental Activities					
Long-term Liabilities	<u>\$ 10,165,514</u>	<u>\$ 1,123,503</u>	<u>\$ 1,881,066</u>	<u>\$ 9,407,951</u>	<u>\$ 534,861</u>

**Note 5. Employee Retirement System**

The Fiscal Court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system, which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.34 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 18.51 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report.

**Note 6. Insurance**

For the fiscal year ended June 30, 2004, Breathitt County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

**BREATHITT COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**  
**(Continued)**

**Note 7. Changes in Accounting Principles and Prior Period Adjustments**

The county has implemented Governmental Accounting Standards Board (GASB) Statements 33, 34 and 37, as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements. The effect of this change on the beginning net assets of the governmental activities is an increase of \$8,713,952 due to capital assets previously not reported and the effect of long-term debt.

**Note 8. Estimated Infrastructure Historical Cost**

Infrastructure historical cost is an estimate. The primary government estimated the year infrastructure was built by determining when a major reconstruction had been done on infrastructure. Then current year construction cost was deflated back to the estimated year of construction or reconstruction to arrive at estimated historical cost.

**Note 9. Subsequent Event**

In FY 2005, Breathitt County has agreed to pay CMW Associates a negotiated fee of \$150,000 for the redesign of the Breathitt County, Kentucky Justice Center. This money will be financed through the KACO Leasing Program.

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**BREATHITT COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2004**



**BREATHITT COUNTY**  
**BUDGETARY COMPARISON SCHEDULES – MAJOR FUNDS**  
**Required Supplementary Information - Modified Cash Basis**

**For The Year Ended June 30, 2004**

	<b>GENERAL FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Taxes	\$ 1,135,000	\$ 1,319,159	\$ 1,305,953	\$ (13,206)
Excess Fees		36,972	36,973	1
Intergovernmental Revenue	122,007	207,137	178,619	(28,518)
Miscellaneous	184,134	198,172	141,578	(56,594)
Interest	2,000	2,000	1,718	(282)
Total Revenues	<u>1,443,141</u>	<u>1,763,440</u>	<u>1,664,841</u>	<u>(98,599)</u>
<b>EXPENDITURES</b>				
General Government	951,691	1,041,010	818,861	222,149
Protection to Persons and Property	66,450	108,615	62,186	46,429
Social Services	24,500	35,741	29,728	6,013
Administration	527,500	796,732	437,066	359,666
Total Expenditures	<u>1,570,141</u>	<u>1,982,098</u>	<u>1,347,841</u>	<u>634,257</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(127,000)</u>	<u>(218,658)</u>	<u>317,000</u>	<u>535,658</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Adjustments To Prior Year Surplus		11,618	11,618	
Transfers From Other Funds	100,000	142,718	42,718	(100,000)
Transfers To Other Funds	(348,000)	(348,000)	(228,000)	120,000
Total Other Financing Sources (Uses)	<u>(248,000)</u>	<u>(193,664)</u>	<u>(173,664)</u>	<u>20,000</u>
Net Changes in Fund Balance	(375,000)	(412,322)	143,336	555,658
Fund Balance - Beginning	<u>375,000</u>	<u>412,322</u>	<u>412,322</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 555,658</u>	<u>\$ 555,658</u>

**BREATHITT COUNTY**  
**BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2004**  
**(Continued)**

	<b>ROAD FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Intergovernmental Revenue	\$ 1,508,390	\$ 2,375,895	\$ 2,432,009	\$ 56,114
Miscellaneous	5,000	30,000	25,085	(4,915)
Interest	2,500	2,922	2,659	(263)
Total Revenues	<u>\$ 1,515,890</u>	<u>\$ 2,408,817</u>	<u>\$ 2,459,753</u>	<u>50,936</u>
<b>EXPENDITURES</b>				
General Health and Sanitation	\$	\$ 25,000	\$ 24,422	\$ 578
Transportation Facilities and Services	10,000	2,500	2,328	172
Roads	1,230,180	2,406,450	2,224,361	182,089
Capital Projects		55,450		55,450
Debt Service	216,000	242,569	19,050	223,519
Administration	194,710	144,351	118,715	25,636
Total Expenditures	<u>\$ 1,650,890</u>	<u>\$ 2,876,320</u>	<u>\$ 2,388,876</u>	<u>\$ 487,444</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(135,000)</u>	<u>(467,503)</u>	<u>70,877</u>	<u>538,380</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers From Other Funds	100,000	155,450	55,450	(100,000)
Transfers To Other Funds	(100,000)	(328,306)	(228,306)	100,000
Governmental Leasing Receipts		483,503	258,503	(225,000)
Total Other Financing Sources (Uses)	<u></u>	<u>310,647</u>	<u>85,647</u>	<u>(225,000)</u>
Net Changes in Fund Balance	(135,000)	(156,856)	156,524	313,380
Fund Balance - Beginning	<u>135,000</u>	<u>156,856</u>	<u>156,856</u>	<u></u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 313,380</u>	<u>\$ 313,380</u>

**BREATHITT COUNTY**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2004**

**Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. Formal budgets are not adopted for the Breathitt County Kentucky Justice Center Corporation Bond Fund, the Breathitt County General Obligation Refunding Bond Series 2003 Fund, and the Breathitt County Public Properties Corporation Bond Fund.

The State Local Finance Officer does not require the Breathitt County Kentucky Justice Center Corporation Bond Fund, the Breathitt County General Obligation Refunding Bond Series 2003 Fund, and the Breathitt County Public Properties Corporation Bond Fund to be budgeted. Bond indentures and other relevant contractual provisions require specific annual payments to these funds and these transfers are budgeted in the governmental funds.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

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**BREATHITT COUNTY  
COMBINING BALANCE SHEET -  
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS  
Other Supplementary Information**

**June 30, 2004**

**BREATHITT COUNTY**  
**COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**June 30, 2004**

	<b>Jail Fund</b>	<b>LGEA Fund</b>	<b>CDBG Fund</b>	<b>DES Fund</b>	<b>Solid Waste Fund</b>
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 9,503	\$ 110,063	\$	\$ 15,431	\$ 91,437
Total Assets	<u>\$ 9,503</u>	<u>\$ 110,063</u>	<u>\$ 0</u>	<u>\$ 15,431</u>	<u>\$ 91,437</u>
<b>FUND BALANCES</b>					
Unreserved:					
Special Revenue Funds	\$ 9,503	\$ 110,063	\$	\$ 15,431	\$ 91,437
Total Fund Balances	<u>\$ 9,503</u>	<u>\$ 110,063</u>	<u>\$ 0</u>	<u>\$ 15,431</u>	<u>\$ 91,437</u>

**BREATHITT COUNTY**  
**COMBINING BALANCE SHEET -**  
**NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**  
**June 30, 2004**  
**(Continued)**

<b>E-911 Fund</b>	<b>LGED Fund</b>	<b>Breahitt County Public Properties Corporation Bond Fund</b>	<b>Total Non-Major Governmental Funds</b>
<u>\$ 83,144</u>	<u>\$ 2,014</u>	<u>\$</u>	<u>\$ 311,592</u>
<u><u>\$ 83,144</u></u>	<u><u>\$ 2,014</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 311,592</u></u>
<u>\$ 83,144</u>	<u>\$ 2,014</u>	<u>\$</u>	<u>\$ 311,592</u>
<u><u>\$ 83,144</u></u>	<u><u>\$ 2,014</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 311,592</u></u>

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**BREATHITT COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**  
**For The Year Ended June 30, 2004**

**BREATHITT COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**For The Year Ended June 30, 2004**

	<b>Jail Fund</b>	<b>LGEA Fund</b>	<b>CDBG Fund</b>	<b>DES Fund</b>
<b>REVENUES</b>				
Taxes	\$	\$	\$	\$
Intergovernmental	88,484	338,614	393,283	503,417
Charge for Services	395			
Miscellaneous	1,449	114		
Interest	93	350		
Total Revenues	<u>90,421</u>	<u>339,078</u>	<u>393,283</u>	<u>503,417</u>
<b>EXPENDITURES</b>				
General Government		41,625		
Protection to Persons and Property	457,109			487,986
General Health and Sanitation		43,263		
Recreation and Culture		12,391		
Roads		11,965		
Airports		10,323		
Debt Service	19,965	6,000		
Capital Projects			393,283	
Administration	27,168	19,579		
Total Expenditures	<u>504,242</u>	<u>145,146</u>	<u>393,283</u>	<u>487,986</u>
Excess (deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(413,821)</u>	<u>193,932</u>		<u>15,431</u>
<b>Other Financing Sources (Uses)</b>				
Adjustment to PY Surplus	324			
Transfers From Other Funds	418,000			
Transfers To Other Funds	(19,106)	(190,000)		
Total Other Financing Sources (Uses)	<u>399,218</u>	<u>(190,000)</u>		
Net Change in Fund Balances	(14,603)	3,932		15,431
Fund Balances - Beginning	24,106	106,131		
Fund Balances - Ending	<u>\$ 9,503</u>	<u>\$ 110,063</u>	<u>\$ 0</u>	<u>\$ 15,431</u>

\*

\* Jail Fund Beginning Balance Includes Jail Incentive Pay Fund from FY2003

**BREATHITT COUNTY****COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES****IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS****Other Supplementary Information****For The Year Ended June 30, 2004****(Continued)**

<b>Solid Waste Fund</b>	<b>E-911 Fund</b>	<b>LGED Fund</b>	<b>Breahitt County Public Properties Corporation Bond Fund</b>	<b>Total Non-Major Governmental Funds</b>
\$	\$ 76,668	\$	\$	\$ 76,668
198,544				1,522,342
60,496				60,891
5,468				7,031
452	268		1,435	2,598
264,960	76,936		1,435	1,669,530
				41,625
42,507	54,186			1,041,788
240,420				283,683
				12,391
				11,965
				10,323
				25,965
		991		394,274
8,711	6,092			61,550
291,638	60,278	991		1,883,564
(26,678)	16,658	(991)	1,435	(214,034)
3,252	550			4,126
			18,000	436,000
			(316,525)	(525,631)
3,252	550		(298,525)	(85,505)
(23,426)	17,208	(991)	(297,090)	(299,539)
114,863	65,936	3,005	297,090	611,131
\$ 91,437	\$ 83,144	\$ 2,014	\$ 0	\$ 311,592

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**BREATHITT COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**For The Year Ended June 30, 2004**



**BREATHITT COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**Fiscal Year Ended June 30, 2004**

**A. SUMMARY OF AUDIT RESULTS**

1. The auditor's report expresses an unqualified opinion on the financial statements of Breathitt County, Kentucky.
2. One reportable condition relating to the internal control of the audit of the financial statements is reported in the Independent Auditor's Report. The condition reported is a material weakness.
3. One instance of noncompliance material to the financial statements of Breathitt County was disclosed during the audit.
4. Two reportable conditions relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Breathitt County expresses a qualified opinion.
6. Audit findings relative to the major federal awards programs for Breathitt County are reported in Part C of this schedule.
7. The two programs tested as major programs were: Disaster and Emergency Assistance Grant (CFDA# 83.544 and 97.036) and Homeland Security Grants Program (CFDA# 97.004)
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Breathitt County was not determined to be a low-risk auditee.

**B. FINDINGS – FINANCIAL STATEMENT AUDIT**

**REPORTABLE CONDITIONS AND NONCOMPLIANCES**

**Reference Number 2004-1**

**The County Treasurer Should Prepare Bank Reconciliations For The Payroll Account**

The County Treasurer did not prepare a bank reconciliation for the Payroll Account. We recommend a reconciliation be performed on the payroll account.

*County Judge/Executive Lewis Warrix's Response: Agree that account should be reconciled and goal is to reconcile monthly.*

BREATHITT COUNTY  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 Fiscal Year Ended June 30, 2004  
 (Continued)

**Reference Number 2004-2**

The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

On August 31, 2003, \$602,876 of the county's deposits of public funds were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the amount of insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). The county should require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. We also recommend the county enter into a written agreement with the depository institution to secure the county's interest in the collateral pledged or provided by the depository institution. According to federal law, *12 U.S.C.A. § 1823(e)*, this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

*County Judge/Executive Lewis Warrix's Response: Bank will be notified of deficiency and instructed to provide agreement to adjust pledge in accordance with deposit as required.*

PRIOR YEAR FINDINGS FINANCIAL STATEMENT AUDIT

The County Should Require Depository Institutions To Enter Into A Written Collateral Security Agreement

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

NONCOMPLIANCES AND REPORTABLE CONDITIONS

**Reference Number 2004-3**

The County Should Monitor Davis-Bacon Act Requirements As Applicable To Federal Awards

U.S Department of Homeland Security  
 Passed-Through State Department of  
 Military Affairs:

Disaster and Emergency Assistance Grant (CFDA #83.544 and #97.036)

The county does not monitor Davis-Bacon Act requirements as they pertain to subcontractors of FEMA projects. The fiscal court does not have any policies or procedures in place to ensure that contractors are abiding by prevailing wage rate requirements. The FEMA grant agreement specifically states that the county must comply with KRS 337.505 and KRS 337.550, which relate to prevailing wage rates and labor standards. We recommend that the fiscal court establish policies and procedures to ensure compliance with Davis-Bacon Act requirements, prevailing wage rates, labor standards, etc.

*County Judge/Executive Lewis Warrix's Response: Administrative code will be changed to incorporate this provision and contractors will be advised to provide proof of compliance.*

BREATHITT COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 2004  
(Continued)

**Reference Number 2004-4**

The County Should Require All Vendors Related To Federal Awards To Submit Suspension And Debarment Certifications

---

U.S Department of Homeland Security

Passed-Through State Department of  
Military Affairs:

Disaster and Emergency Assistance Grant (CFDA #83.544 and #97.036)

U.S Department of Homeland Security

Passed-Through State Disaster & Emergency Services

Homeland Security Grants Program (CFDA #97.004)

The county does not monitor procurement contracts for compliance with suspension and debarment certifications. All vendors for expenditures of federal awards should be required to submit a suspension and debarment certification to the county ensuring that they have not been suspended or debarred from participating in contracts involving federal awards. Alternatively, the county could review the list of suspended and debarred parties available in electronic format to see if any potential vendors are listed as being suspended or debarred. In order to decrease the risk associated with awarding contracts without regard to suspended or debarred parties, we recommend that the fiscal court require vendors associated with federal awards to provide suspension and debarment certifications or that the county utilize the electronic listing to ensure vendors are not suspended or debarred parties.

*County Judge/Executive Lewis Warrix's Response: This provision has been added to recent contract and listing of such contractors will be monitored to insure the agency is in compliance.*

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**BREATHITT COUNTY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**



**BREATHITT COUNTY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**Fiscal Year Ended June 30, 2004**

Federal Grantor		
Program Title	Pass-Through	
<u>Grant Name (CFDA #)</u>	<u>Grantor's Number</u>	<u>Expenditures</u>
Cash Programs:		
<u>U.S Department of Homeland Security</u>		
Passed-Through State Department of Military Affairs:		
Disaster and Emergency Assistance Grant (CFDA #97.036)	Not Available	\$ 541,621
Passed-Through State Disaster & Emergency Services: Homeland Security Grants Program (CFDA #97.004)	Not Available	<u>495,440</u>
Total U.S. Department of Homeland Security		<u>\$ 1,037,061</u>
<u>U.S Department of Commerce</u>		
Passed-Through National Oceanic Atmospheric Administration:		
Pride Community Grants (CFDA #11.469)	Not Available	286,329
<u>U.S Appalachian Regional Commission</u>		
Passed-Through State Governor's Office for Local Development:		
Appalachian Regional Commission Grants (CFDA #23.002)	Not Available	188,283
<u>U.S. Department of Housing and Urban Development</u>		
Passed-Through State Governor's Office for Local Development:		
Community Development Block Grant (CFDA #14.228)	Not Available	200,000
<u>U.S. Department of Agriculture</u>		
Passed-Through State:		
Rural Development Community Facilities Grant (CFDA #10.766)	Not Available	<u>5,000</u>
Total Cash Expenditures of Federal Awards		<u><u>\$ 1,716,673</u></u>

**BREATHITT COUNTY**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**Fiscal Year Ended June 30, 2004**

Note 1 - The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Breathitt County, Kentucky and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

Note 2 - Of the federal expenditures presented in the accompanying Schedule of Expenditures of Federal Awards, Breathitt County Fiscal Court provided federal awards to the following subrecipient:

Program	CFDA Number	Subrecipient	Pass-Through Grant Amount
Appalachian Regional Commission Grants	23.002	Breathitt Co. Industrial Foundation	\$ 188,283
Community Development Block Grant	14.228	Breathitt Co. Industrial Foundation	200,000
Rural Development Community Facilities Grant	10.766	Breathitt Co. Industrial Foundation	<u>5,000</u>
			<u><u>\$ 393,283</u></u>

Note 3 - CFDA Program Number Change Disaster and Emergency Assistance Grant. CFDA number was changed from 83.544 to 97.036. This program was administered by the U.S. Federal Emergency Management Agency but is now administered by the U.S. Department of Homeland Security.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Lewis Warrix, Breathitt County Judge/Executive  
Members of the Breathitt County Fiscal Court

**Report On Internal Control Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Breathitt County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated January 11, 2005. Breathitt County prepares its financial statements in accordance with the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Breathitt County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Breathitt County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs.

- 2004-1 The County Treasurer Should Prepare Bank Reconciliations For The Payroll Account

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we consider the reportable condition described above to be a material weakness.



Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Breathitt County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing opinions on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such opinions. The results of our tests disclosed one instance of material noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying schedule of findings and questioned costs.

- 2004-2 The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
January 11, 2005

**REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL  
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**





CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Lewis Warrix, Breathitt County Judge/Executive  
Members of the Breathitt County Fiscal Court

Report On Compliance With Requirements  
Applicable To Each Major Program And On Internal Control  
Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Breathitt County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. Breathitt County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Breathitt County's management. Our responsibility is to express an opinion on Breathitt County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Breathitt County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Breathitt County's compliance with those requirements.

As described in item 2004-2 (The County Should Monitor Davis-Bacon Act Requirements As Applicable To Federal Awards) and 2004-3 (The County Should Require All Vendors Related To Federal Awards To Submit Suspension And Debarment Certifications) in the accompanying schedule of findings and questioned costs, Breathitt County did not comply with requirements regarding the Davis Bacon Act and the Procurement and Suspension and Debarment that are applicable to its Disaster and Emergency Assistance Grant and Homeland Security Grants Programs. Compliance with such requirements is necessary, in our opinion, for Breathitt County to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, Breathitt County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.



Report On Compliance With Requirements  
Applicable To Each Major Program And On Internal Control  
Over Compliance In Accordance With OMB Circular A-133  
(Continued)

Internal Control Over Compliance

The management of Breathitt County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Breathitt County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Breathitt County's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs.

- 2004-3 The County Should Monitor Davis-Bacon Act Requirements As Applicable To Federal Awards
- 2004-4 The County Should Require All Vendors Related To Federal Awards To Submit Suspension And Debarment Certifications

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We believe the reportable conditions described above are material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
January 11, 2005

**CERTIFICATION OF COMPLIANCE –  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS**

**BREATHITT COUNTY FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2004**



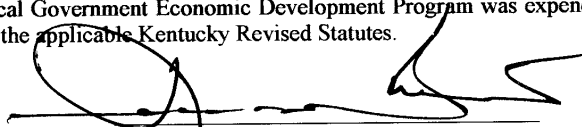
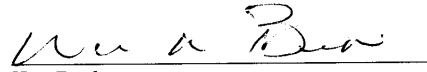
CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

BREATHITT COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2004

The Breathitt County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program and Local Government Economic Development Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

  
\_\_\_\_\_  
Lewis Warrix  
County Judge/Executive  
\_\_\_\_\_  
Ken Back  
County Treasurer

